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SUBJECT: TURKEY STILL STRUGGLING TO IMPROVE INVESTMENT
ENVIRONMENT

11. (SBU) Summary: Treasury Director General for Foreign Investments Melek Us told us March 13 that the lack of high-level direction over the past several months has stymied the bureaucracy's ability to take decisions needed to improve the foreign investment environment. The government has submitted a draft bill to improve the investment environment, and soon will send forward a bill to create an investment promotion agency. However, Us admitted that foreign investors were unlikely to look seriously at Turkey until the Iraq "crisis" passes and the GOT convinces would-be investors that it is committed to full implementation of its reform program. As a result, 2003 probably will not see significant investment inflows, though it would not take much to surpass 2002's amazingly low total of \$569 million. End Summary.

12. (SBU) Treasury Director General for Foreign Investment Melek Us provided EconCouns with an update March 13 on the government's efforts to improve the foreign direct investment environment. She acknowledged that there had been little progress in the past six months, as bureaucrats put off decisions due to uncertainty, first over the elections, and subsequently over how long the Gul government would last.

13. (SBU) Us said the interagency committee set up under the previous government to propose measures to improve the investment environment had finally met last week, after a nearly five month hiatus. The committee, chaired by State Minister Ali Babacan, agreed to recommend to the government that it submit legislation to create a new investment promotion agency. The agency, Us explained, would not be a one-stop shop. Rather, its mission would be to explain to potential investors all the steps involved in investing in Turkey, help them should they run into problems, and -- most importantly -- market Turkey internationally as a good place to invest.

14. (SBU) Us admitted that this was not a propitious time to try to "sell" Turkey to foreign investors. Investors will only begin to look at Turkey seriously, she said, once the Iraq situation was resolved and the government demonstrated a firm commitment to economic reform. In the meantime, the bureaucracy -- working with the private sector -- will try to improve the legislative framework. She expects Parliament to pass both the investment promotion bill and long-pending foreign investment legislation (an IMF condition) by end-April. Also, the government has submitted a new mining law to Parliament; the only problem, per Us, is that no one likes the draft, which apparently puts severe restrictions on foreign investment in mining.

15. (SBU) In addition, the government is planning to issue decrees to ease restrictions on land use for investors. Starting January 1, 2004, the government will shift to an inflation accounting system (the lack of which has been a huge subject of complaint), and to an automatic, uniform mechanism for granting tax allowances to foreign investors (so they will not need to obtain a Treasury certificate to obtain the allowance).

16. (SBU) EconCouns noted the importance of resolving problems facing existing investors, and mentioned as examples Cargill's land problem, the sugar quota, the cola tax, the lack of effective IPR protection, and recent government efforts to force energy companies to lower their prices. Us agreed, and admitted that the government was facing great difficulty in resolving these problems. She noted, for example, that there was a consensus among the relevant ministries in favor of finding a solution to Cargill's land problem, but that nonetheless the government had not been able to find such a solution. She noted that Turkey's

constitution -- not just ordinary law -- prohibited conversion of "first degree" agricultural land into industrial land.

17. (SBU) Comment; The outlook for FDI inflows in 2003 is not rosy, though the second-half of the year could see some improvement if the Iraq issue is resolved and the government successfully implements its economic program, including some major priviatzations. In any case, it will be hard for Turkey to attract less investment this year than it did in 2002, when inflows totaled an incredibly low \$569 million.
PEARSON